

Solar energy:

the likely impact of feed-in tariff reduction



Introduction

It's potentially a really challenging time for companies and professionals working within the solar energy industry. Government plans to review the solar feed-in tariff targets have been driven by the unprecedented number of large scale solar developments, which are supposedly diverting funds from residential solar projects. This means that for many organisations and people working within the industry the immediate future is driven by uncertainty.

Our research shows the review is on the whole being viewed negatively, with the majority expecting the changes to have a damaging impact on their business. For others it means the future of solar energy in the UK as a whole is at risk, while for people employed within the industry there is undoubtedly a great deal of apprehension about their future job prospects.

With the UK missing its renewable energy targets in 2010 (only managing to reach 6.5%, when the target was set at 10%) there is real concern that the wheels could really fall off the renewable energy wagon.

Our research also shows some worrying findings, with a number of senior people across Europe losing faith with the UK Government over the recent cuts. One senior board member of a leading European manufacturer questioned whether he could make business plans with such decisions likely to really affect his business:

“My concern is that the UK Government doesn't seem to have much regard for business or commercial decisions and have made a drastic move quickly. What is next? Entering the UK is a huge risk now and it may mean we take our funding to other countries.”

On the flip side it could be an opportunity for the residential homeowners who will continue to feel the benefits of the FIT, and indeed more will be able to make money from solar. The money will stretch further and more people will be able to take advantage. The general feeling is that the market will head towards the cheap stock and that the Chinese players will control the market, this could mean homeowners get cheaper systems and feel even more benefits.

However, prices could stay the same meaning homeowners get a lower quality Chinese system instead or a higher quality European one for the same price. By trying to protect the market, could the Government actually be making things worse?

So what does the FIT review mean for the commercial and domestic solar energy industry? Will it offer opportunities for growth? Will it threaten the UK's emissions targets? Will it mean significant job losses? Will it put the UK at risk from external suppliers?

Only time will tell, but for now, it seems the industry is holding its breath in the hope that the change is merely an evolutionary one and that the UK solar energy industry has the potential to be a vibrant and dynamic contributor to the UK's renewable energy development.

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The implications for UK businesses

Organisations are still reeling from the potential impact of the FIT review and this has had a knock-on effect to confidence in the job market. Confidence is at a low and for many companies it means the end of their commercial solar energy aspirations.

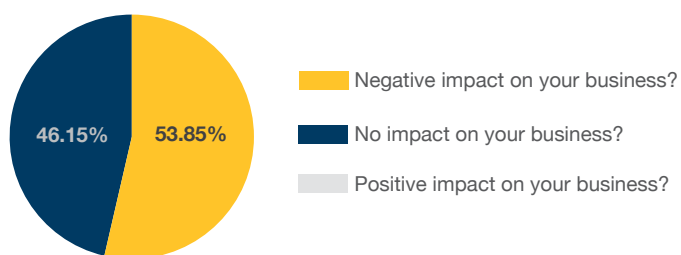
■ The impact of the reduction in feed-in tariffs is likely to have a significant impact on businesses operating in this space according to more than one in two companies we spoke to. Almost 54% (53.85%) of companies agreed the new proposed tariffs are likely to have a negative impact on their business.

The reasons for this impact are varied but on the whole companies expect their proportion of market share to be reduced and are looking instead to focus their energies on countries outside the UK or refocus their efforts on the domestic market.

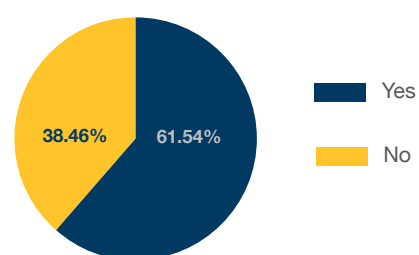
One respondent even went so far as to suggest they would *“pull out of the UK because the market is no longer commercially viable.”*

■ There is a need to bear in mind international commercial considerations according to more than one in ten (12%) respondents. For these companies there is a growing fear the proposals are likely to reduce the amount of foreign investment in the UK solar industry, with China in particular looking likely to reconsider its growth plans to avoid the UK.

Are the new proposed tariff rates likely to have:



Are you likely to implement new measures as a result of this action?



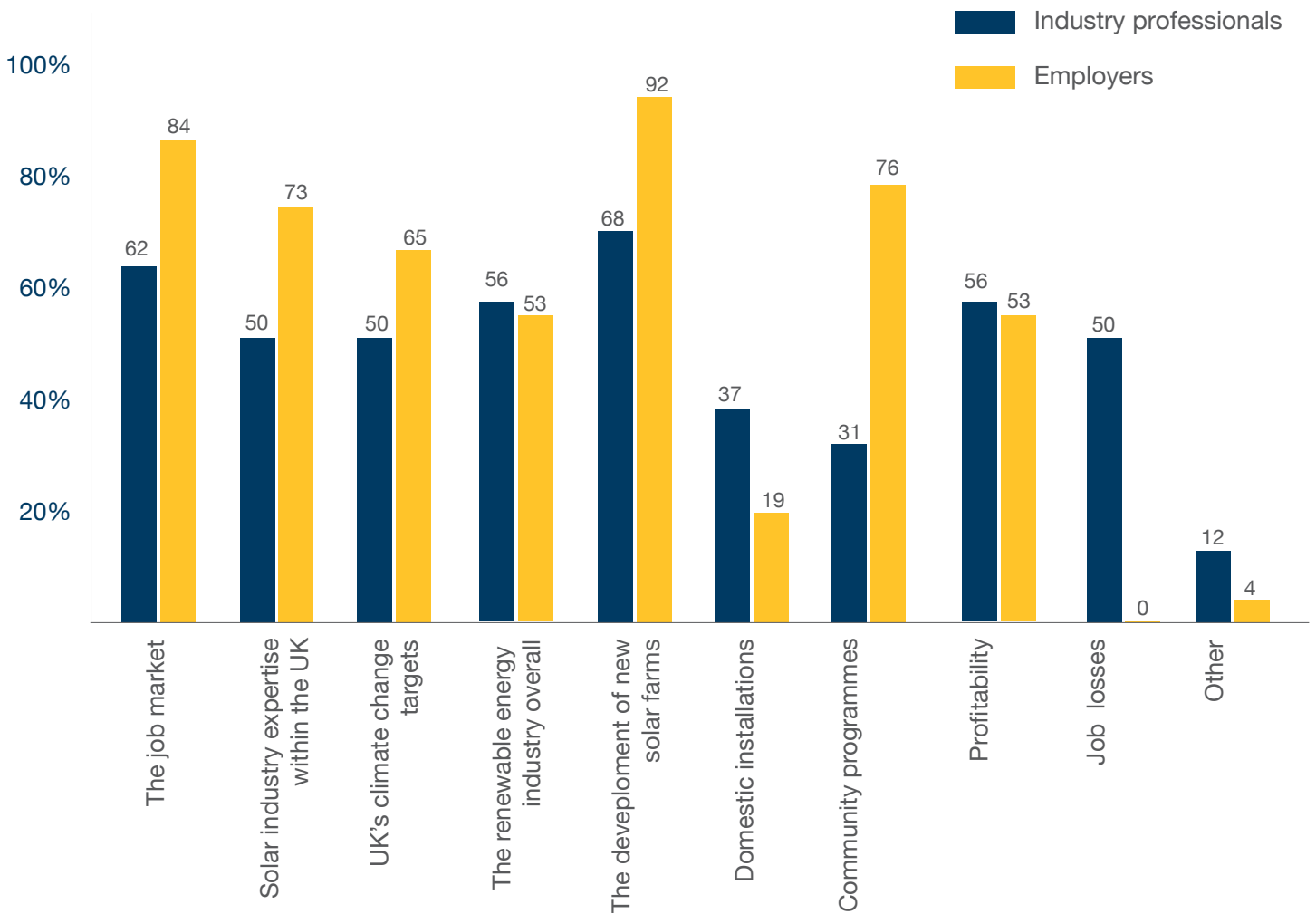
■ Somewhat surprisingly though no one saw the proposals as having a positive impact on business. The rest of our survey (46.15%) felt the proposals were unlikely to have any impact on their business.

It seems companies already operating in the domestic market are unlikely to feel the impact of the proposals. Over a quarter of companies surveyed (28%) agreed they were looking at their commercial strategies and considering spreading the risk by moving into the domestic market.

One company has already begun to feel the impact, admitting they have “already lost two huge contracts due to these potential changes” and is now “focusing on the domestic market.”

For those already focusing on the domestic market, the feed-in tariffs have the potential to truly benefit their business: “we focus on the domestic market anyway and our products already offer great value for money, so this could potentially suit us.”

Where is the impact most likely to be felt?



What it means to the solar energy job market

Lack of investment, stunted growth and international competition are all expected to have an impact on the solar energy job market. Knowing what the future holds is likely to inhibit investment in the job market, while for people already employed within the industry, the future is being driven by uncertainty.

■ 84.62% of companies surveyed agreed the job market is likely to suffer as a result of the changes, with many companies putting their recruitment plans on hold in response to the move.

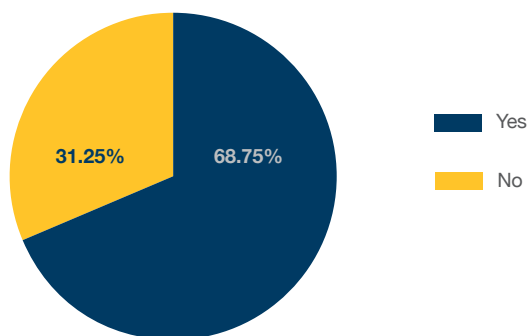
■ Solar energy professionals seem to agree with this assessment with almost 70% (68.75%) admitting to feeling concerned about their careers in light of the changes.

One respondent said:

“The review has already had a massive impact on the industry. The news of the review has already curbed investment, both internally within the UK and externally, as well as stifling trade within the private sector. The bottom line is that businesses are losing faith and looking elsewhere for growth opportunities. The end result is definitely going to lead to a loss of jobs and career opportunities.”

“Uncertainty and risk are business confidence killers. Investors are sure to react negatively to these FIT changes and there are likely to be repercussions for PV module sales professionals like me. No market, no sale, no income!”

Are you concerned about the impact the new proposed tariff will have on your career in the solar energy industry?



“The bottom line is that businesses are losing faith and looking elsewhere for growth opportunities.”



■ When asked if the implications of the UK solar job market were likely to encourage people to consider a career change, a quarter (25%) of those surveyed admitted that the tariffs have made them rethink their career options, with just over another third (36%) agreeing to being unsure about what their options might be.

■ For many, being unsure about whether to change career is due to uncertainty around the implications of the review.

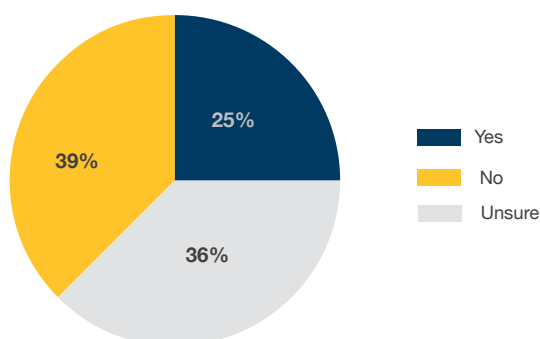
"I think it's wise to wait for the outcome of the review before making any decisions. There is so much change going on in the industry and this is no time for knee-jerk reactions. You never know what could happen."

■ For the 39% not considering a career change, their commitment is driven by a love for the solar energy industry and the belief that the industry is a highly beneficial one.

"Solar energy is my passion so I will continue in this industry no matter what the feed-in policies are."

"I believe in the long-term benefits of solar energy as opposed to other form of renewable technology and want to be a force for change."

Are you likely to consider a career change in light of these tariff changes?



“There is so much change going on in the industry and this is no time for knee-jerk reactions.**”**



Where the impact will be felt most

■ According to our survey, 96.15% of companies feel that large businesses are more likely to be impacted by the changes in FITs.

■ In contradiction to the Department of Energy and Climate Change (DECC) claims that they are supporting sustained growth for small businesses, SMEs are the second most at risk with over 4/5 of respondents (80.77%) agreeing they are likely to be significantly impacted.

■ UK solar farm development is most likely to be hit by the FIT reduction according to companies in our survey. Over 90% (92.31%) felt the development of solar energy farms across the UK would be significantly curtailed, which in turn would result in a reduction in the commercial opportunities afforded by solar power. This, it was felt would significantly impact on funding for solar energy as a whole.

Farmers and other landowners are likely to suffer from the changes as plans to introduce diversified income streams are halted. For those that have already invested, the warning is that they may have to wait longer than expected to see a return on their investment, and some may not even recoup the money at all.

■ Community and local programmes are also likely to feel significant impact from the changes:

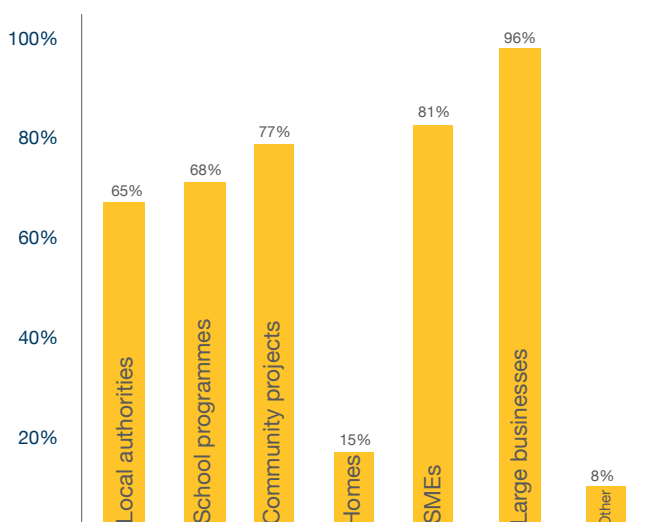
● 76.92% of respondents agreed that community projects are likely to be significantly reduced and programmes already in place are likely to be postponed or even cancelled.

● 68.39% agreed school programmes would also be severely impacted, while 65% believed local authority programmes are also likely to struggle.

Mark Shorrock, Chief Executive of Low Carbon Solar UK, recently said:

“In pulling back on a commitment to support solar energy, the government will cause the abandonment of hundreds of community scale schemes. The costs of not getting this right now include the creation of new jobs, a diversified income for farmers and landowners, reduced energy costs for businesses and the provision of more secure and reliable energy for the UK.”

Where is the impact most likely to be felt?



“ In pulling back on a commitment to support solar energy, the government will cause the abandonment of hundreds of community scale schemes. ”



■ The FIT review is not only going to affect the solar energy industry, but the renewable energy industry as a whole in the UK according to more than half of companies surveyed (53.85%).

■ This in turn will significantly affect the UK's ability to meet its climate change targets according to 50% of professionals and 65.35% of company decision makers.

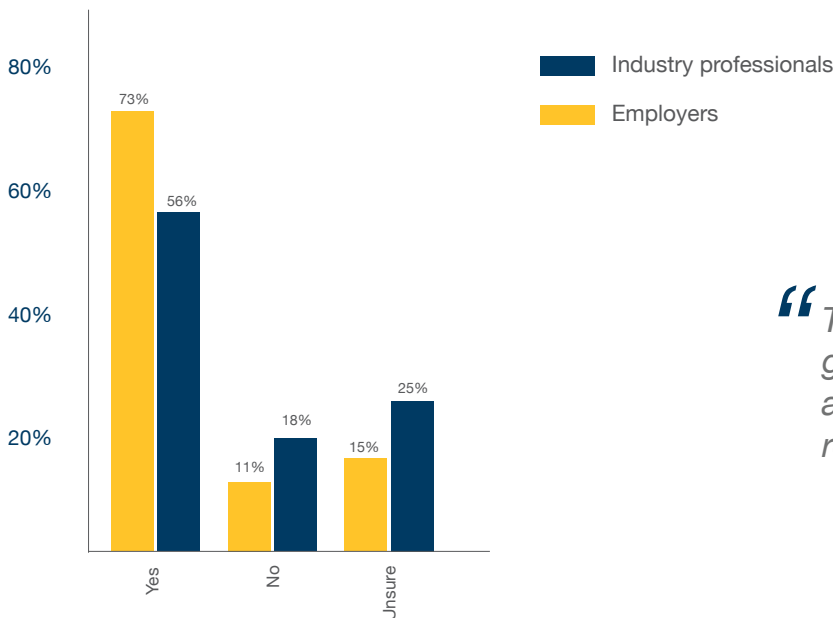
One company decision maker went so far as to say:

"The failure to encourage large-scale PV generation systems for the vast majority of residential and non-residential buildings in the UK will make the UK's ability to meet its 2020 CO² emission reduction target impossible."

A solar energy engineer said:

"These measures will only make the UK's ability to compete worse. Already we are lacking competitiveness because of a number of factors; cost of production; access to raw materials and the associated high costs of import; lack of sufficient solar radiation W/m². We are already a decade behind countries like China, Korea, Japan and Germany. And this can only make things worse."

Do you think this tariff reduction will have an impact on the UK's ability to compete in the solar energy industry?



“The failure to encourage large-scale PV generation systems will make the UK's ability to meet its 2020 CO² emission reduction target impossible.”

The future of solar in the UK

Is the future of solar energy in the UK facing its biggest challenge yet? Competition from inside and outside the UK is sure to increase; cheaper Asian imports could potentially threaten manufacturing and the commercial development of solar farms could be a thing of the past. But the opportunities for domestic investment could be the light at the end of the tunnel.

■ When asked whether the FITs will have an impact on the UK's ability to compete in the solar energy market nearly 3/4 of companies (73.08%) said this would be the case whereas just over a half (56.25%) of people working within the industry agreed.

One company spokesperson said:

"The UK will lose some of its punch in the industry and could be threatened by companies from across Europe and Asia. This will have an impact on investment in the UK market and means we will be saturated with equipment and parts from countries such as China. This could be a major blow for manufacturing."

■ Nearly 2/3 of companies (61.54%) surveyed agreed that, in light of the new measures, they are likely to implement significant change across their organisation. These changes range from moving away from the commercial space into the domestic space, to pulling out of the UK and focusing on other European countries. The growth of solar energy in Germany is a real opportunity for the companies looking outside the UK and was referenced as offering significant potential.

For many companies we spoke to, this review could be the last straw for the commercial solar industry, with many companies suggesting "commercial programmes are dead", the FITs "will murder commercial development" and "could cripple the commercial market."

■ Of the 38.46% of companies not looking to implement new measures the vast majority focus on the domestic market and so the feed-in tariffs have little affect on their business. Some companies even suggested the tariffs could have a positive impact on their domestic programmes.

■ Solar energy expertise is likely to be damaged in response to the FIT changes according to almost 3/4 of companies surveyed (73.08%), with just over a half of solar energy professionals agreeing with this point.

One solar energy consultant recognised:

"The solar energy learning curve is in full swing at the moment and this review could mean many highly capable professionals will turn away from the sector. Long-term job security is not guaranteed and therefore we could lose a lot of great talent to other industries or other countries."

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Positive implications

It's not all doom and gloom for some companies. Domestic opportunities within solar energy could see a rise in opportunities, while the rest of the renewable energy industry could benefit if the Government commits to raising awareness of green and renewable energy programmes.

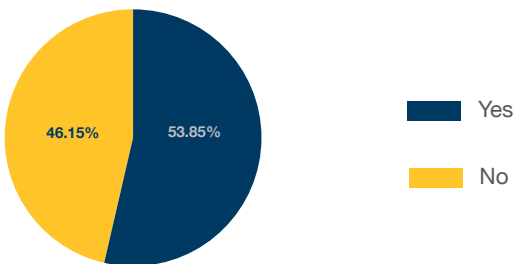
■ Although there seems to be a great deal of negativity towards the FITs, we asked if there were any positive implications coming from the new proposals. Although over 40% (43.75) of professionals and almost a half of companies (46.15%) felt not, there were some anticipated benefits from the new proposals.

“There needs to be strong will from the government to pursue a clean energy agenda and support the green energy industry.”

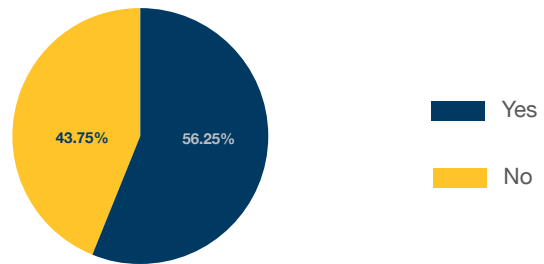
One company acknowledged that for other renewable energy sources there are positive implications but not so much for the solar industry:

“The FIT changes provide a potentially incredible platform for other forms of renewable energy, such as hybrid systems integrating solar water heating systems with heat pumps and PV electricity generation, the development of new building materials and high performance technologies. But all of this must be accompanied by a strong will of the government to pursue a clean energy agenda and support the green energy industry through training, public awareness and long-term commitment to FIT schemes.”

Can we anticipate any positive implications from the review?



Employer response



Industry professional response



Conclusion

We are already seeing significant backlash to the Government's review of feed-in tariffs. Companies are already taking legal action against the Government in response to the potential threats to their business and this discontent is likely to increase.

The review could mean the end of commercial solar energy development programmes, but it could also mean a re-ignition of the domestic market.

Companies that adapt quickly and spread the risk could, with hindsight, benefit from the review. But for community programmes the impact could be much starker.

It's only a matter of time before we start seeing the first effects of this review. If nothing changes, and that is unlikely, then the Government will have a significant job to do convincing the solar energy industry their measures are the right ones and that solar energy is alive and well in the UK.

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This report is based on conversations with over 100 Managing Directors, senior decision makers and solar energy professionals from across the UK over the period of one month.

In light of the proposed changes to feed-in tariffs we asked how companies and solar energy experts anticipate the changes will affect the UK's solar energy industry, the solar energy job market and what it means for the future of solar energy in the UK.

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